U.S. Trade in 1999

Through the Uruguay Round, the NAFTA, the Agreements on Information Technology, Basic Telecommunications and Financial Services, and the many other bilateral, regional, sectoral and multilateral agreements concluded since 1992, we have significantly reduced world trade barriers. This has contributed greatly to the record U.S. economic expansion, creating opportunities for the expansion of America's most productive industries, for the higher paying jobs at home and for raising the standard of living for all Americans through increased quality, variety, and price competitiveness of the goods and services available in the U.S. marketplace.

During this period, the U.S. trade imbalance has increased. Until the onset of the Asian financial crisis in 1997, even the U.S. goods and trade deficit, at 1.3 percent to 1.4 percent of GDP, was less than half as large as at its peak during the late 1980s. In 1998, however, the strength of the U.S. economy and the exceptional investment opportunities available here, combined with financial difficulties abroad, resulted in large increases in gross and net foreign capital inflows and corresponding increases in the U.S. trade deficit. U.S. exports were particularly affected, coming to a halt for the better part of two years. At the same time, however, wider availability of capital in the U.S. market has helped fuel exceptional rates of business investment and increased investment in America's high-tech sectors of the future.

The maintenance, and even expansion, of open markets over the last two years, in the face of economic strains abroad and depressed demand for certain vulnerable industries in the U.S. manufacturing and agricultural sectors, has contributed to notably rapid recoveries of the countries most affected by the Asian financial crisis. At the end of the period under review, in the second half of 1999, U.S. trade and the U.S. economy was clearly beginning to benefit from a return to positive growth for exports of U.S. goods and services.

I. 1999 Overview

The United States is the largest trading nation in the world. Trade (exports and imports of goods and services, and earnings and payments on foreign investment)[1] has increased nearly 21-fold since 1970 and 80 percent between 1992 and 1999, reaching a record $2.8 trillion. The dollar value of total U.S. trade increased by 11.9 percent in 1997, dipped to just 3.0 percent growth in 1998 under the impact of global financial and economic difficulties, and partially recovered to 6.4 percent growth in 1999, though mostly due to strong U.S. import growth.

Exports of goods and services and earnings on investment increased by 65 percent between 1992 and 1999. Exports increased by 2.7 percent in 1999, rebounding from the less than 0.1 percent increase in 1998, however, this growth was much smaller than the growth rate in excess of 10 percent in 1997. Export growth over the last two years has been depressed by the Asian financial crisis and economic recession in much of the region, although stabilization and recovery began in 1999.

Imports of goods and services and payments on investment continued their upward trend through most of the 1990s, increasing by 94

[1] Earnings on foreign investment are considered trade because they are conceptually the payment made to foreign residents for the service rendered by the use of foreign capital. The rest of this chapter, however deals with goods and services trade, excluding foreign investment earnings . All trade values are nominal unless otherwise indicated.

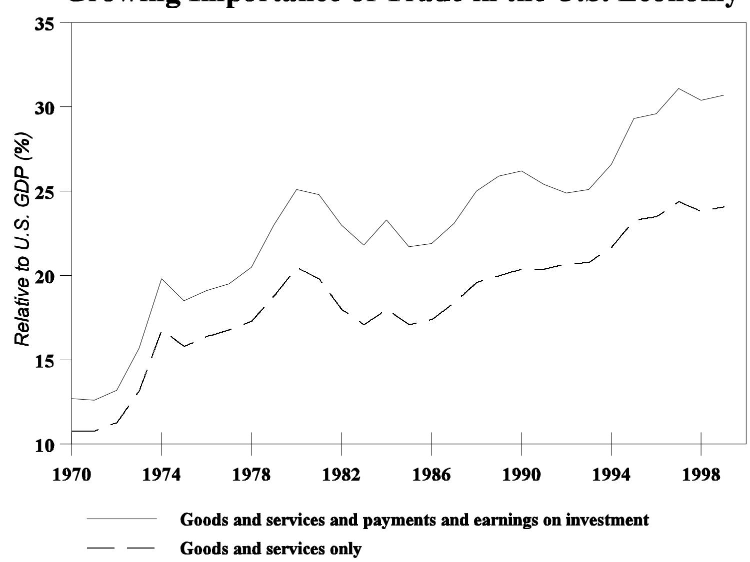
percent between 1992 and 1999. Imports increased by 9.8 percent in 1999, compared to 5.7 percent in 1998 and 12.1 percent in 1997. The greater increase in U.S. imports relative to U.S. exports expanded the overall U.S. trade deficit in 1999. Stronger growth in the United States, rising household wealth and income, and strong investment demand contributed to the sizable increase in U.S. imports. NAFTA countries (Canada and Mexico), the European Union, and the Pacific Rim (excluding China and Japan) accounted for most of the additional increases in U.S. goods exports and imports during 1999.

Even with the temporary slowdown in trade in 1998-1999, the total growth in trade between 1970 and 1999, in both nominal and real terms, has been more rapid than the growth of the overall U.S. economy. In nominal terms, trade has grown at an annual average rate of 11.1 percent per year since 1970, compared to U.S. gross domestic product growing by 7.8 percent. In real terms, the growth in trade has more than doubled the growth in GDP, 6.7 percent to 3.2 percent. The value of trade of goods and services including earnings and payments on investment, compared to the value of GDP, was 30.7 percent during 1999 (after reaching a high of 31.1 percent in 1997), as compared to 25 percent in 1992, and 13 percent in 1970 *(figure 1)*. For goods and services only, the value was 24.1 percent during 1999 (24.4 percent in 1997), as compared to 21 percent in 1992 and 11 percent in 1970.

The United States is the largest goods trading country in the world (both exporting and importing), more than 60 percent greater than Germany, the second largest goods trading country. The United States is also the largest exporter of services in the world, and the second largest importer of services (behind Germany) in the world. U.S. exports of goods and services (excluding investment earnings) in 1999 increased by 2.6 percent to $958.5 billion, as

Figure 1:

Growing Importance of Trade in the U.S. Economy



Total exports + imports as a percentage of the value of U.S. GDP
Source: U.S. Department of Commerce.

compared to 1998's decline of 0.5 percent. Despite the decline in 1998 and the modest growth in 1999, U.S. exports of goods and services have increased by more than 55 percent since 1992.

U.S. exports of goods alone increased by 1.9 percent to $683.0 billion as compared to 1998's 1.4 percent decrease. The modest export turnaround was due, in part, to the start of recovery in the Pacific Rim economies from the effects of the Asian financial crisis and severe recession, as well as continued trade with NAFTA countries. U.S. exports of goods increased 8.2 percent to the Asian Pacific Rim region (excluding Japan and China) and 7.5 percent to NAFTA countries (10.3 percent to Mexico, 6.1 percent to Canada). On a sectoral basis, U.S. goods export growth was led by sales of capital goods and autos and auto parts, increasing 3.7 percent and 2.1 percent, respectively.

Goods exports to high income countries grew 2.9 percent while exports to low and middle income countries increased by 0.7 percent in 1999. Despite the recent, and apparently temporary, economic turmoil in Southeast Asia and Latin America, these regions are likely to remain the major contributors to U.S. goods export growth in the years to come. About 85 percent of the total world population is in low and middle income countries, which import more than $1 trillion a year from high-income industrialized countries. Approximately 42 percent of U.S. exports currently go to such countries. Extensive infrastructure/economic development needs in low income countries, coupled with U.S. preeminence in many capital goods and agricultural markets, suggest that the United States remains in an excellent position to benefit from future growth in the low and middle income countries of the world.

Reflecting continued strong U.S. economic growth, imports of goods and services grew 12.0 percent in 1999 to just over $1.2 trillion, significantly above the 5.3 percent growth rate of the preceding year. U.S. imports of goods and services have increased 87.5 percent since 1992. U.S. imports of goods alone grew 12.3 percent in 1999 to more than $1 trillion, and are up 92.0 percent since 1992.

Goods import growth was led by purchases of autos and auto parts (up 20.4 percent; of which over half reflects intra-company trade within North America), and consumer goods (up 10.7 percent), encouraged by the ongoing strong consumer demand growth in the United States in 1999. Imports of industrial supplies and materials increased by 10.7 percent, and capital goods increased by 10.1 percent in 1999. Capital goods and industrial supplies and materials currently account for nearly half of U.S. imports. These goods, contributing directly to strengthening U.S. production, have accounted for 50 percent of the dollar increase in U.S. goods imports during the expansionary years from 1992 to 1999.

The fastest growing sources of goods imports in 1999 were Latin America (excluding Mexico), Mexico, China, and Canada, up 16.1 percent, 15.9 percent, 14.9 percent, and 14.5 percent, respectively. Since 1992, U.S. imports from China and Mexico have more than tripled, due principally to cost effective production shifts from other Asian countries. China is the low cost producer in Asia of many simple exportable products, while Mexico, its production of exportables using a much higher share of U.S.-produced content than Asia's production, has had the advantages of proximity and NAFTA access to the U.S. market. In addition, Mexico's international liquidity difficulties culminating in a sharp depreciation of the peso in December 1994 gave an added boost to Mexican exports. U.S. imports from Latin America (excluding Mexico) increased as petroleum prices rebounded in 1999.[2] Imports from Japan, our

[2] The per-barrel price of imported crude petroleum rose from $9.19 in January 1999 to $22.67 in

second largest supplier after Canada, increased by 7.8 percent in 1999, after increasing by 0.1 percent in 1998. And imports from the Asian Pacific Rim (excluding China and Japan) increased by 9.3 percent, more than double the 2.7 percent level that occurred in 1998. Notably, with economic recovery underway in the Pacific Rim, U.S. exports grew 8.2 percent, significantly greater than the 17.4 decline in 1998, but slightly slower than the 9.3 percent growth in U.S. imports with the region.

With U.S. import growth overall outpacing that of exports, the total deficit on trade in both goods and services rose from $164.3 billion in 1998 (2.0 percent of GDP) to $271.3 billion in 1999 (2.9 percent of GDP). The U.S. deficit in goods trade alone increased, from $246.9 billion in 1998 to $347.1 billion in 1999. The increase in the goods deficit was somewhat offset by the surplus on trade in services, which declined from $82.7 billion in 1998 to $75.8 billion in 1999. The goods and services deficit equaled 2.9 percent of GDP in 1999, and the goods deficit equaled 3.8 percent of GDP in 1999. The rise in the trade deficit largely reflects the strength of the U.S. economy – in both consumer demand and investment expansion – and the recent financial and economic difficulties experienced by a number of trade partners. Most significantly, in the period 1994-1997, the U.S. goods and services deficit had been roughly stable as a share of GDP (1.3 percent - 1.4 percent).

December, with the import bill for crude petroleum rising by $13.4 billion in 1999 to a total of $50.7.

II. Goods Trade

A. Export Growth

U.S. goods exports increased 1.9 percent in 1999, as compared to the 1.4 percent decrease of the preceding year. Growth in exports of capital goods, autos and auto parts, and consumer goods were 3.7 percent, 2.1percent and 1.7 percent, respectively in 1999 *(table 1 and figure 2)*. Further, exports of foods, feeds, and beverages decreased by 2.3 percent and industrial supplies and materials exports decreased by 0.9 percent. The modest gains in some areas and losses in others are primarily a reflection of poor growth conditions in a number of areas of the world in 1999, including Latin America, China, and Japan.

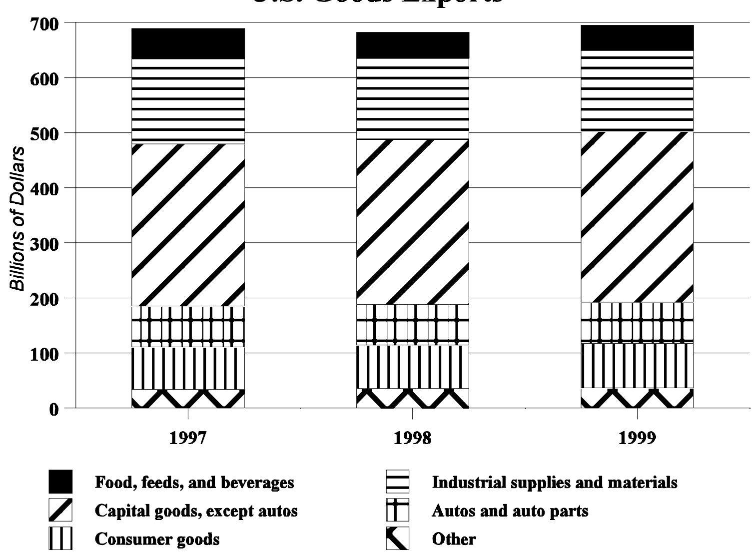
Since 1992, exports of capital goods have risen 76.6 percent, and accounted for 45 percent of total goods exports in 1999. Exports of advanced technology products increased by 7.3 percent in 1999, and by 86.7 percent since 1992. Exports of manufactured products overall, of which capital goods and high technology products are subcomponents rose 2.5 percent in 1999 and have increased 66.1 percent since 1992. Exports of agricultural products increased 11.7 percent since 1992, including a decline of 7.4 percent in 1999 reflecting the effects of the Asian financial crisis and the recession in Japan on some of our principal agricultural markets.

Table 1:
U.S. Goods Exports

Exports:	1997	1998	1999	98-99	94-99	92-99
	Billions of Dollars			*Percent Change*		
Total (BOP basis)	679.7	670.2	683.0	1.9%	36.0%	55.1%
Food, feeds, and beverages	51.5	46.4	45.3	-2.3%	7.9%	12.5%
Industrial supplies and materials	158.2	148.3	147.0	-0.9%	21.1%	34.7%
Capital goods, except autos	294.5	299.6	310.6	3.7%	51.5%	76.6%
Autos and auto parts	74.0	73.2	74.7	2.1%	29.2%	58.9%
Consumer goods	77.4	79.3	80.6	1.7%	34.4%	56.8%
Other	33.5	35.4	36.8	3.9%	39.0%	51.0%
Addendum: Agriculture	57.1	52	48.2	-7.4%	4.1%	11.7%
Addendum: Manufacturing	592.5	596.6	611.6	2.5%	42.0%	66.1%
Addendum: High technology	179.5	186.4	200.0	7.3%	65.7%	86.7%

Source: U.S. Department of Commerce, Balance of Payments Basis for Total, Census Basis for Sectors.

Figure 2:
U.S. Goods Exports



Source: U.S. Department of Commerce, Census Basis.

In those regions where exports increased – the Asian Pacific Rim excluding China and Japan (8.2 percent), NAFTA countries (Mexico (10.3 percent) and Canada (6.1 percent)), and the European Union (1.8 percent) – the following factors contributed to the export growth in 1999:

- competitiveness of U.S. products;
- continued recovery of the Mexican economy;
- stabilization of Asian Pacific Rim economies and improvements in economic conditions;
- continued recovery of growth in a number of high income countries; and
- reduction of trade barriers through numerous bilateral and multilateral trade agreements.

Further signaling a recovery from the effects of Asia's financial crisis, U.S. goods exports to the Pacific Rim (excluding Japan and China) increased by 8.2 percent in 1999. This has begun to reverse the very sharp U.S. export decline of 17.4 percent in 1998 – in effect, a loss of one dollar in every six of our exports to this region. *(table 2)*. The export growth has been mostly due to the economic recoveries in a number of the countries affected by the Asian crisis. For example, real GDP growth for 1999 is estimated to increase by 9 percent for South Korea, 3.9 percent for the Philippines, 5.8 percent for Singapore, and 5.3 percent for Taiwan. U.S. exports to these countries for 1999 increased by 39.2 percent to South Korea, 7.3 percent to the Philippines, 3.5 percent to Singapore, and 5.3 percent to Taiwan. U.S. exports to the Pacific Rim excluding Japan and China is up nearly 50 percent since 1992, despite the significant export decline to this region in 1998.

Table 2:
U.S. Goods Exports to Selected Countries/Region

Exports to:	1997	1998	1999	98-99	94-99	92-99
	Billions of Dollars			*Percent Change*		
Canada	151.8	156.6	166.2	6.1%	45.3%	83.5%
European Union	140.8	149.0	151.6	1.8%	40.7%	40.6%
Japan	65.5	57.8	57.5	-0.6%	7.5%	20.2%
Mexico	71.4	78.8	86.9	10.3%	70.8%	114.0%
China	12.9	14.2	13.1	-7.9%	41.4%	76.8%
Pacific Rim, except Japan and China	115.3	95.3	103.1	8.2%	21.3%	48.9%
Latin America, except Mexico	63.0	63.4	55.2	-12.9%	32.3%	56.8%
Addendum: High Income Countries	389.7	394.4	405.8	2.9%	35.5%	51.3%
Addendum: Low to Middle Income Countries	299.1	287.3	289.2	0.7%	35.9%	60.9%

Source: U.S. Department of Commerce, Census Basis.

Exports to our NAFTA partners increased 7.5 percent in 1999 and are up 78.2 percent since NAFTA entered into force. Over 36 percent of U.S. goods exports went to NAFTA countries in 1999, up from nearly 31 percent in 1993, the year before NAFTA implementation began.

Continued growth of the Canadian economy in 1999 (GDP up an estimated 3.7 percent) resulted in a 6.1 percent increase in U.S. goods exports to Canada (our largest trading partner). Since 1992, exports have increased 83.5 percent, and approximately 24 percent of U.S. goods exports last year went to our northern neighbor. U.S. exports to Mexico (our second largest single country export market), increased by 10.3 percent ($8.1 billion), reaching $86.9 billion in 1999. Exports to Mexico were 108.9 percent higher than in 1993 the year before NAFTA implementation began.

Export sales to Japan, after decreasing 11.8 percent in 1998, further decreased 0.6 percent in 1999 (to $57.5 billion). This decrease was due mostly to sluggish Japanese economic growth, with GDP up less than 1 percent in 1999 and down 3 percent in 1998.

Since 1992, exports to Japan have risen 20.2 percent, roughly one-third of the growth of U.S. goods exports to the world (up 55 percent), reflecting Japan's generally anemic economic growth over this period. Real industrial production for Japan, for example, has increased by less than 4 percent in Japan since 1992, while growing by roughly 40 percent in the United States.

U.S. goods exports to China decreased by 7.9 percent in 1999, significantly reversing the 10.7 percent export growth in 1998. This decline, in part, reflected a slowdown in China's economy. This decrease in export growth largely resulted from declines in two major sectors: aircraft (commercial aircraft and parts) and machinery (computers, generators, and turbines). Exports to China in these categories decreased by 20 percent in 1999. Despite the export decline in 1999, U.S. exports to China have increased by nearly 77 percent since 1992. U.S. exports to China are dominated by higher-valued capital goods and industrial supplies, which account for some 85 percent of U.S. exports to China.

U.S. goods exports to Latin America (excluding Mexico) fell sharply by 12.9 percent in 1999, reflecting recessionary economic conditions throughout much of Latin America. U.S. exports have increased nearly 57 percent to Latin America since 1992, despite the downturn in 1999.

B. Import Growth

With the continued strong U.S. economic expansion and demand for investment, U.S. goods imports climbed in 1999, up 12.3 percent from the previous year. In addition, the impact of the Asian financial crisis contributed to the strong growth of exports from these affected countries to the United States. For example, between the first quarter of 1998 and the second quarter of 1999 (latest data available), the increase in exports to the United States from the countries directly involved in the Asian financial crisis (Indonesia, South Korea, Malaysia, Philippines, and Thailand) accounted for 93 percent of the total increase in exports from these countries to the world. Over the last seven years, goods imports have risen 92.0 percent as the U.S. economy moved out of the recession of the early 1990s into a period of sustained expansion *(table 3 and figure 3).*

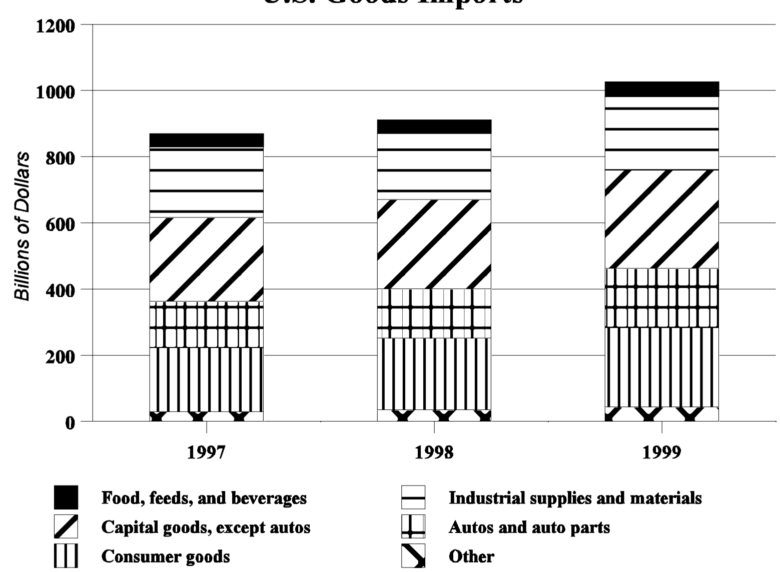
Import growth appears to be driven importantly by demands created by U.S. economic expansion (from 1992 to 1999, U.S. real GDP rose about 29 percent, or at an average annual rate of 3.7 percent). Growth has been especially strong in the past three years. In the last half of 1999, real GDP surged, growing at annualized rates of 5.7 percent in the third quarter and 6.9 percent in the fourth quarter. As a result, the

Table 3: U.S. Goods Imports						
Imports:	1997	1998	1999	98-99	94-99	92-99
	Billions of Dollars			*Percent Change*		
Total (BOP Basis)	876.4	917.2	1030.2	12.3%	54.1%	92.0%
Food, feeds, and beverages	39.7	41.2	43.6	5.7%	40.6%	57.9%
Industrial supplies and materials	213.8	200.1	222.6	10.7%	36.7%	59.9%
Capital goods, except autos	253.3	269.6	296.9	10.1%	61.0%	121.0%
Autos and auto parts	139.8	149.1	179.5	20.4%	51.7%	95.6%
Consumer goods	193.8	216.5	239.6	10.7%	63.8%	95.3%
Other	29.3	35.4	43.9	24.1%	106.1%	148.0%
Addendum: Agriculture	35.2	35.7	36.7	2.7%	41.4%	56.5%
Addendum: Manufacturing	728.9	790.8	882.7	11.6%	58.2%	103.3%
Addendum: High technology	147.3	156.8	180.6	15.2%	84.1%	151.2%

Source: U.S. Department of Commerce, Balance of Payments Basis for Total, Census Basis for Sectors.

Figure 3:

U.S. Goods Imports



Source: U.S. Department of Commerce, Census Basis.

rate of unemployment fell to 4.0 percent in January 2000, its lowest level in thirty years.

- Imports of capital goods led the way, rising 121 percent since 1992 and 10.1 percent in 1999 alone. The share of capital goods in total imports has risen from 25 percent in 1992 to 29 percent in 1999. Capital goods account for 33.3 percent of total U.S. goods import growth between 1992 and 1999.

- Imports of industrial supplies and materials rose 59.9 percent since 1992. Industrial goods accounted for nearly 22 percent of all U.S. goods imports last year. Together capital goods and industrial supplies and materials account for 50 percent of total goods import growth between 1992 and 1999.

Imports of consumer goods increased 10.7 percent in 1999, as compared to an 11.7 percent increase in 1998. Consumer goods accounted for more than 23 percent of total goods imports in 1999. Continuing a trend of steady growth, in part arising from the integration of the North American automobile industry, purchases of foreign autos and auto parts grew 20.4 percent in 1999. Since 1992, imports of automotive products and consumer goods have risen by 95.6 percent and 95.3 percent, respectively. The share of these two categories in total imports was nearly 41 percent in 1999, somewhat up from nearly 40 percent in 1998.

Purchases of foods, feeds, and beverages rose 5.7 percent in 1999. This sector's share of imports has fallen modestly from slightly more than 5 percent of goods imports in 1992 to 4.3 percent last year.

Imports of high technology products increased 15.2 percent in 1999, and since 1992, these imports are up more than 151.2 percent. Imports of manufactured products, of which capital goods and high technology products are subcomponents, rose 11.6 percent in 1999, and since 1992, manufactured goods imports overall increased 103.3 percent.

Unlike 1998, imports from low and middle income countries increased somewhat more rapidly than imports from high income countries in 1999, 13.8 percent versus 11.3 percent *(table 4)*. Imports from Mexico increased 15.9 percent in 1999 and have more than tripled in the last seven years, reaching $109.7 billion in 1999. The strength of import growth from Mexico during 1995-1999 is related to strong growth of the U.S. economy, and the Mexican economy's adjustment to its balance-of-payments difficulties in 1994 and 1995.

China continued to be among the fastest growing supplier of U.S. goods imports. Purchases from China increased by 14.9 percent in 1999. Imports from China have more than tripled since 1992, but accounted for only 8 percent of total U.S. goods imports in 1999. The increase in imports from China appears to be associated, in part, with the shift from elsewhere in Asia of parts of the production processes dependent on lower skilled workers. U.S. imports from China are primarily low value-added consumer goods, such as toys, footware, apparel, and some areas of consumer electronics. Consumer goods now make up nearly 70 percent of U.S. imports from China.

As China's share of such U.S. imports has risen, that of other Asian countries has fallen, reflecting displacement by China of goods from other suppliers. For example, China's import share of U.S. imports of footwear has increased from 9 percent to 60 percent between 1989 and 1999, while the share from four Asian countries (Hong Kong, Taiwan, South Korea, and Japan) fell from a collective 51 percent to 2 percent. Similarly, for U.S. imports of toys and sporting goods, China's share increased from 22 percent to 61 percent, while the share for the four Asian countries declined from a collective 58 percent to 21 percent. For U.S. imports of radio broadcast receivers, China's share increased from 11 percent to 33 percent, while the share for the four Asian countries declined from a collective 49 percent to 12 percent. For 35 mm cameras, China's share increased from 4 percent to 38 percent, while the share for the four Asian countries declined from a collective 84 percent to 23 percent.

Imports from Latin America (excluding Mexico) have risen 74.1 percent since 1992, with an increase of 16.1 percent last year due to the strong U.S. economic growth, strength of the dollar and the price of oil rebounding in 1999. This region represented 5.7 percent of total U.S. imports in 1999. Imports from the Pacific Rim (excluding Japan and China) have risen 72.6 percent since 1992, but only 9.3 percent in 1999. This region represented 14.4 percent of total U.S. imports in 1999.

Imports from Canada were up 14.5 percent in 1999 (more than double since 1992), representing 19.3 percent of U.S. goods imports in 1999 while imports from the European Union rose 10.8 percent in 1999 (up 93 percent in the last seven years), representing 19 percent of U.S. goods imports in 1999.

Imports from Japan increased 7.8 percent in 1999, and have increased 34.9 percent since 1992, reflecting a slowdown in import growth from Japan since the 1980s. Purchases from Japan in 1999 represented 12.8 percent of total U.S. imports, as compared to 18.3 percent during 1992.

Table 4:
U.S. Goods Imports from Selected Countries/Regions

Imports from:	**1997**	**1998**	**1999**	**98-99**	**94-99**	**92-99**
	Billions of Dollars			*Percent Change*		
Canada	167.2	173.3	198.3	14.5%	54.5%	101.1%
European Union	157.5	176.4	195.4	10.8%	63.5%	93.0%
Japan	121.7	121.8	131.4	7.8%	10.3	34.9%
Mexico	85.9	94.6	109.7	15.9%	121.7%	211.6%
China	62.6	71.2	81.8	14.9%	110.9%	217.9%
Pacific Rim, except Japan and China	131.1	134.7	147.2	9.3%	42.6%	72.6%
Latin America, except Mexico	53.7	50.3	58.4	16.1%	51.8%	74.1%
Addendum: High Income Countries	470.5	497.2	553.1	11.3%	43.7%	76.5%
Addendum: Low to Middle Income Countries	399.2	414.7	471.9	13.8%	69.6%	115.2%

Source: U.S. Department of Commerce, Census Basis.

III. Services Trade

The American services sector includes a vast array of industries from finance and telecommunications to distribution, health, education, environmental, travel and tourism, construction, law, engineering, architecture and others. These industries provide 86 million private-sector jobs and over $5.5 trillion worth of production – more than 75 percent of America's private-sector economic production, and more than one dollar in seven of world production.

In addition to this productive capacity, services play a subtle but essential role in our industrial economy, to which they directly contribute about 2.1 percent of GDP in the form of construction, and provide the infrastructure that allows manufacturing industry and farmers to function.

- Efficient transport and distribution allow farmers to get their products to market without spoilage, and ensures that auto parts reach the plant in time for efficient production.

- Strong insurance, accounting, finance and legal industries ensure that farmers and manufacturers have access to capital; that contracts guarantee predictable, transparent and reliable business decisions; and that consumers have high standards of protection.

- Telecommunications, software and news dissemination are essential to the functioning of all modern industries.

- And new technologies now developing, in particular, but not limited to, the Internet and electronic commerce, promise a vast increase in the efficiency and productivity of American service industries in the years ahead.

In many of these fields, the United States is the world's leader. As a general matter, our success rests on our openness to both domestic and foreign competition, combined with guarantees of high standards of consumer protection through transparent, fair and impartial regulation where relevant. The competition this creates speeds innovation and helps develop a productive, efficient economy.

American services industries are highly successful exporters. In fact, the United States is by far the world's leading exporter of commercial services, with $246 billion worth of private-sector services exports in 1998 (the U.S. government also exported approximately $18 billion in services) as compared with $165 billion in private sector services imports.

Altogether, our two-way services trade makes up roughly 15 percent of the total $1.4 trillion in world services trade. The pattern of U.S. trade in these industries is somewhat different from our trade in goods. In particular, the European Union and Japan take 46 percent ($114 billion) of our private sector services exports, as opposed to 30 percent of our goods exports.

These figures indicate how much services industries now contribute to our economic growth and to our export performance. Our goal in services trade policy, in a very broad sense, is to open markets and foster competition, transparency, and efficiency in the world economy, as in our domestic services markets. This will facilitate American exports of services and have the potential to help create a more stable, efficient and productive world economy.

A. Export Growth

Exports of services continued to grow, increasing twice as fast in 1999 as in 1998. U.S. services exports reached $275.5 billion in 1999, up 4.5 percent compared to the 2.1 percent increase in 1998. Services exports are up 56.9 percent since 1992 *(table 5 and figure 4)*.

Demand for services, both for final consumption and as inputs to manufacturing and primary industries, has continued to increase. Disciplines are being developed through implementation of the Uruguay Round Agreements with respect to curtailing U.S. trade partners' ability to discriminate against efficient U.S. services exports. The resulting more open markets will aid in expanding U.S. services exports further. As the world's largest exporter of services (and of goods, as well), the United States is in an excellent position to take advantage of continued growth in demand for services. Business, professional, technical, environmental, communication, and other services important to economic development, as well as entertainment and travel services, are areas of great U.S. strength which should benefit from more open markets and stronger global growth.

U.S. exports of services to the world were led by two of the six major services export categories, the other private services (including business and professional services, education, and financial services) and the travel categories, accounting for 63 percent of the total services exports in 1999. Other private services has been the largest export growth services category in 1999 (up 7.1 percent) and since 1992 (up 103 percent). Other transportation services exports was the second largest export category in 1999 (up 6.9 percent), but ranked 5th in export growth

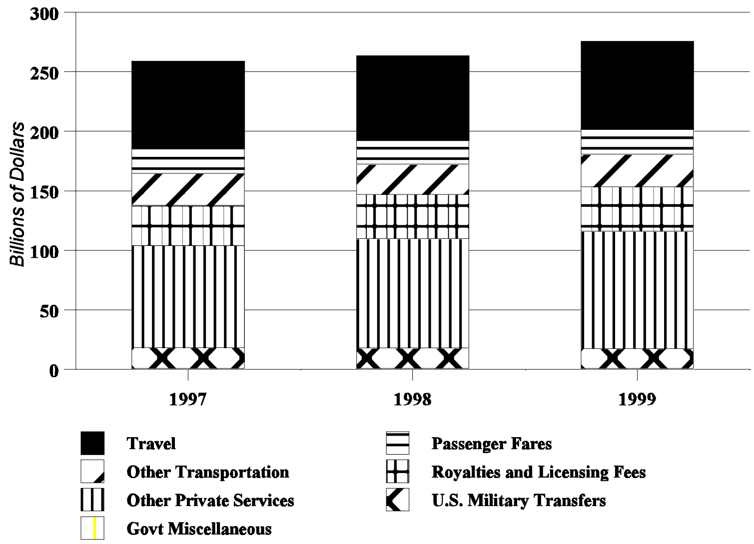
Table 5:
U.S. Services Exports

Exports:	**1997**	**1998**	**1999**	**98-99**	**94-99**	**92-99**
	Billions of Dollars			*Percent Change*		
Total (BOP basis)	258.8	263.7	275.5	4.5%	37.9%	56.9%
Travel	73.3	71.3	73.7	3.4%	26.2%	34.7%
Passenger Fares	20.8	20.0	21.0	5.2%	23.8%	26.8%
Other Transportation	27.0	25.5	27.3	6.9%	14.6%	26.9%
Royalties and Licensing Fees	33.8	36.8	37.4	1.6%	40.1%	79.8%
Other Private Services	85.6	92.1	98.6	7.1%	64.1%	103.0%
Transfers under U.S. Military Sales Contracts	17.6	17.2	16.6	-3.4%	29.4%	33.6%
U.S. Government Miscellaneous Services	0.8	0.8	0.9	5.5%	-2.7%	2.6%

Source: U.S. Department of Commerce.

Figure 4:

U.S. Services Exports



Source: U.S. Department of Commerce, Census Basis.

since 1992 (up only 26.8 percent).[3] U.S. exports of royalties and licensing fees was the second largest services export growth category since 1992 (up 79.8 percent). Of the $99.9 billion increase in U.S. services exports between 1992 and 1999, two-thirds of the export growth was in the Other Private Services (up $50 billion) and Royalties and Licensing Fees (up $16.6 billion) categories.

Detailed sectoral breakdowns for exports of other private services are available only through 1998. In 1998, other private services exports totaled $92.1 billion. Of this, U.S. exports to business related parties (to a foreign parent or affiliate) accounted for $28.3 billion, or 30.7 percent of total other private service exports. For the remaining exports of other private services to unaffiliated parties, the value of exports in 1998 (and the percentage growth between 1992 and 1998) for the 7 largest exports are: business, professional and technical services, $24.3 billion (up 107.6 percent); financial services, $13.7 billion (up 239.6 percent); education, $9.0 billion (up 44.9 percent); insurance premiums, $7.0 billion (up 81.3 percent); construction, engineering, architectural and mining services, $4.1 billion (up 109.5 percent); telecommunications, $3.7 billion (up 27.9 percent); and installation, maintenance and repair of equipment, $3.7 billion (up 33.7 percent).

Japan was the largest purchaser of U.S. private services exports in 1998 (latest data available), accounting for 12.5 percent of total U.S. private services exports. The top 5 purchasers of U.S. services exports in 1998 were: Japan ($30.7 billion), the United Kingdom ($27.2 billion), Canada ($19.5 billion), Germany ($15.3 billion), and Mexico ($11.8 billion).

[3] Other transportation services are charges for the transportation of goods by ocean, air, waterway, pipeline, and rail carriers to and from the United States.

Regionally, the United States exported $68.2 billion to the Asia/Pacific Region ($37.5 billion excluding Japan), $83.3 billion to the EU, $31.3 billion to NAFTA countries, and $26.3 billion to Latin America (excluding Mexico).

B. Import Growth

U.S. services import growth was up by 10.3 percent in 1999 to $199.7 billion, and has been slightly higher than export growth during the last seven years (up 71.4 percent since 1992) *(table 6, figure 5)*. U.S. services imports from the world were led by two of the six major services import categories, the travel and other private services (led by telecommunications and by the business, professional, and technical services subcategories) categories, accounting for nearly 57 percent of total services imports in 1999.

Nearly all of the major services import categories exhibited strong growth in 1999, mostly ranging between 8.2 percent and 13.5 percent. Royalties and Licensing Fees and Other Private Services were the two largest import growth categories between 1992 and 1999, up 138.5 percent and 136.1 percent, respectively. Of the $83.2 billion increase in U.S. services imports between 1992 and 1999, the other private services category accounted for 36.5 percent ($30.4 billion) of the increase and the travel category accounted for 26.5 percent ($22.1 billion) of the increase.

As with exports, detailed sectoral breakdowns for imports of other private services are available only through 1998. In 1998, other private services imports totaled $47.7 billion. Of this, U.S. imports from business related parties (from a foreign parent or affiliate accounted for $19.1 billion) or 40.1 percent of

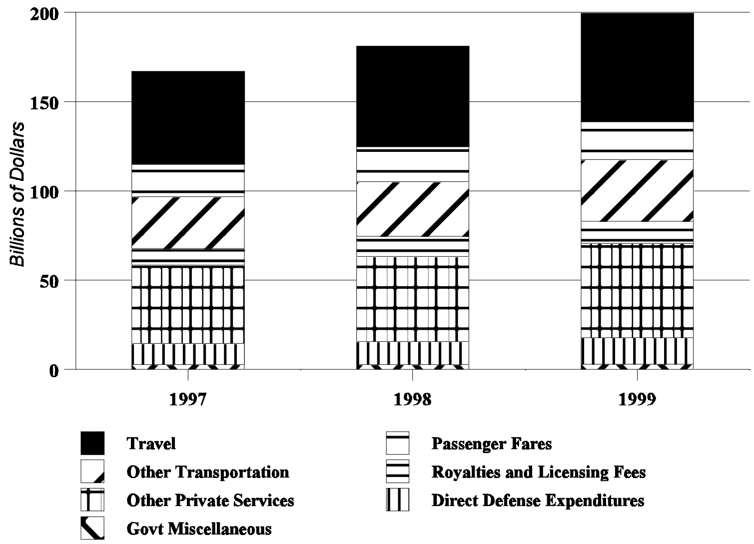
Table 6:
U.S. Services Imports

Imports:	1997	1998	1999	98-99	94-99	92-99
	Billions of Dollars			*Percent Change*		
Total (BOP basis)	166.9	181.0	199.7	10.3%	51.4%	71.4%
Travel	52.1	56.1	60.7	8.3%	38.7%	57.4%
Passenger Fares	18.1	19.8	21.4	8.2%	63.5%	102.1%
Other Transportation	29.0	30.5	34.6	13.5%	32.9%	45.2%
Royalties and Licensing Fees	9.4	11.3	12.4	9.8%	110.2%	138.5%
Other Private Services	43.9	47.7	52.7	10.5%	73.2%	136.1%
Transfers under U.S. Military Sales Contracts	11.7	12.8	14.9	16.4%	46.5%	8.3%
U.S. Government Miscellaneous Services	2.8	2.8	2.9	2.4%	13.9%	26.8%

Source: U.S. Department of Commerce.

Figure 5:

U.S. Services Imports



Source: U.S. Department of Commerce, Census Basis.

total other private service imports. For the remaining imports of other private services from unaffiliated parties, the value of imports in 1998 (and the percentage growth between 1992 and 1998) for the 5 largest imports are: insurance premiums, $18.6 billion (up 58.3 percent); telecommunications, $8.1 billion (up 34.3 percent); business professional and technical services $7.7 billion (up 147.7 percent); financial services, $3.8 billion (up 282.5 percent); and education, $1.5 billion, (up 100.5 percent).

The United Kingdom remained our largest supplier of private services, providing $22.8 billion to the United States in 1998 (latest data available). This accounted for 13.8 percent of total U.S. imports of private services in 1998. The United States imported $15.1 billion from Canada, our second largest supplier, and $13.7 billion from Japan, our third largest supplier and Mexico and Germany were our fourth and fifth largest import suppliers, exporting $10.0 billion and $8.9 billion worth of services to the U.S., respectively, in 1998. Regionally, the United States imported $59.4 billion of services from the EU-15, $40.2 billion from the Asia/Pacific region ($26.5 billion excluding Japan), $25.1 billion from NAFTA, and $10.0 billion from Latin America (excluding Mexico).

IV. The U.S. Trade Deficit

The U.S. goods and services deficit increased significantly in 1999, from $164.3 billion to $271.3 billion, primarily due to the strong U.S. economy and weakness abroad (*table 7)*. The most recent forecasts by the Organization of Economic Cooperation and Development estimate 1999 real GDP growth for the United States to be 3.8 percent; for the EU, 2.8 percent; and for Japan, 1.4 percent. Recent private sector estimates (Standard and Poors DRI) forecasts real U.S. GDP growth of 3.9 percent in 1999, with the rest of the world growing at a combined rate of just 0.5 percent. In this latter forecast, the United States is estimated to have accounted for nearly two-thirds of total world growth in 1999. Reflecting such differences in growth rates, the U.S. goods trade deficit increased by $100.2 billion in 1999, from $246.9 billion to $347.1 billion, greater than the $50.2 billion increase in 1998 and the $5.4 billion increase in 1997.

The U.S. services surplus of $75.8 billion in 1999 offset 22 percent of the deficit in the goods account. Similar to the goods trade deficit, the services surplus declined in 1999 by $6.9 billion from its 1998 level of $82.7 billion. However, contrary to goods, the services surplus is up by $16.7 billion from its 1992 level of $59.1 billion. As a share of U.S. GDP, the goods and services trade deficit has risen from 0.5 percent in 1991 – the end of the recession – to 2.9 percent in 1999, whereas the goods trade deficit has risen from 1.3 percent in 1991 to 3.8 percent in 1999 and the services trade surplus has risen from 0.7 percent in 1991 to 0.8 percent in 1999 *(table 8)*.

Table 7
U.S. Trade Balances with the World

Balance:	**1997**	**1998**	**1999**
	Billions of Dollars		
Goods and Services (BOP Basis)	-104.7	-164.3	-271.3
Goods (BOP Basis)	-196.7	-246.9	-347.1
Services (BOP Basis)	91.9	82.7	75.8

Source: U.S. Department of Commerce, Balance of Payments Basis for World.

Table 8
U.S. Trade Balances as a share of GDP

Share of GDP:	**1987**	**1997**	**1998**	**1999**
	Percent			
Goods and Services (BOP Basis)	-3.3	-1.4	-2.0	-2.9
Goods (BOP Basis)	-3.4	-2.5	-2.9	-3.8
Services (BOP Basis)	0.1	1.1	0.9	0.8

Source: U.S. Department of Commerce.

Economists generally believe that trade deficits, *per se*, are neither good or bad. The reasons for the trade deficit are more relevant. The rise in our trade deficit since 1992, when the goods and services deficit was $37.0 billion, has most certainly been related to the favorable performance of the U.S. economy. The U.S. economy began to recover earlier than other countries from the global recession of the early 1990s and to grow faster than the markets of many of our major trade partners. Since 1992, for example, the U.S. economy has grown nearly two and one-half times faster than the average of the other major economies in the G-7. As a result, U.S. demand for imports rose at a time when foreign demand for U.S. exports was dampened by lack of economic growth abroad. For example, U.S. real industrial production grew by roughly 40 percent in real terms over the last seven years. In contrast, the level of industrial production in Japan increased by less than 4 percent and Germany grew by 6 percent. Similarly for employment, the nearly 21 million job increase since January 1993 stands in sharp contrast to the roughly 2.5 million job growth in the other high-income, large industrial economies of the G-7. Also, the U.S. rate of unemployment of 4.0 percent in January 2000 is the lowest in thirty years.

In addition, the deficit reflects stronger national investment growth in the United States rather than weaker national savings. Between 1991 and 1998, net national investment (gross investment minus depreciation) has increased by 4.4 percentage points of GDP while net saving was up 2.5 percentage points. This deficit, by also funneling large amounts of foreign savings into the United States, has helped the United States to maintain the very high rates of investment that are in part responsible for the recovery in productivity and real wage growth that we have seen since 1995. The current situation also contrasts with the late 1980s when goods and services trade deficits of well over 3 percent of GDP were accompanied by large federal budget deficits. In fiscal year 1987, for example, the federal deficit of $150 billion subtracted from the national savings pool and contributed to the trade deficit. In fiscal year 1999, however, a federal surplus of $124 billion directly contributed to the national savings pool, supporting the view that the current trade imbalance is more a sign of strong investment in the United States, rather than a result of domestic fiscal imbalance.

The surge in the U.S. trade deficit over the last two years also has reflected the financial and economic crisis in a number of Asian countries, recession in Japan, economic weakness in Latin America and slower growth in many other countries than has occurred in the United States. In response to the economic crisis, the United States assisted its stricken trade partners, in part, by maintaining the openness of its markets in the face of their balance-of-payments induced trade adjustments. With successful management of the financial crisis, prospects for global growth have improved considerably, with the first signs of recovery for U.S. exports appearing in 1999. To the extent that the U.S. trade deficit increase has reflected the sharp deterioration in foreign economic performance over the last two years, that problem is in the process of resolution to the benefit of all countries, including the United States, through improving conditions for U.S. exports.